

## Message Text

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67

ACTION ARA-10

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 /090 W

----- 055196

R 071721Z MAY 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5043

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ECIN, EIND

SUBJECT: ANDEAN PACT: SECTORAL PROGRAM NEGOTIATIONS

REF: LIMA A-47, 3/11/75

1. THE FOURTEENTH EXTRAORDINARY SESSION OF THE COMMISSION, WHICH STARTED FEBRUARY 10, AND WHICH HAS SINCE BEEN MEETING INTERMITTENTLY, WILL RECONVENE THE MIDDLE OF MAY. AS A PRELIMINARY STEP, THE HEADS OF DELEGATIONS WILL BE MEETING PRIVATELY FOR ABOUT THREE DAYS AT GRANJA AZUL HOTEL OUTSIDE OF LIMA STARTING MAY 12.

2. THE ISSUE IS AGREEMENT ON THE PETROCHEMICAL, AUTOMOTIVE AND FERTILIZER INDUSTRY SECTORAL PROGRAMS. THE IMPASSE HAS REACHED A POINT AT WHICH THE CONTINUED EXISTENCE OF THE ANDEAN PACT IS AT STAKE. PERUVIAN COMMISSION MEMBER ADMIRAL PARODI HAS INFORMALLY SERVED NOTICE TO THE OTHER

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COUNTRIES THAT PERU MAY DISCONTINUE HONORING THE

GENERAL TRADE LIBERALIZATION TARIFF REDUCTIONS IF NO PROGRESS IS MADE IN THE NEGOTIATION OF THE SECTORAL PROGRAMS. THIS WOULD IMMEDIATELY AFFECT THE SUBSTANTIAL COLOMBIAN EXPORTS TO PERU.

3. COLOMBIA AND VENEZUELA ARE CONSIDERED THE PRINCIPAL OBSTACLES TO AN AGREEMENT (FOR BACKGROUND SEE "A NEW LOOK AT THE ANDEAN PACT" IN REF AIR). COLOMBIA WANTS TO MINIMIZE PROGRAMMING AND PREFERS EXPANDED APPLICATION OF THE GENERAL TRADE LIBERALIZATION SCHEME. THERE IS AN INDICATION, HOWEVER, THAT COLOMBIA WILL RELAX ITS POSITION AT FORTHCOMING MEETING IN ORDER TO AVOID CONFRONTATION WITH THOSE COUNTRIES, NAMELY PERU, BOLIVIA AND ECUADOR, WHICH INSIST ON KEY ROLE FOR SECTORAL PROGRAMMING.

4. VENEZUELA KEEPS INSISTING IN RIGHT TO PRODUCE ANY COMMODITY, WHETHER ASSIGNED TO VENEZUELA OR NOT, AS LONG AS IT WOULD BE MARKETED OUTSIDE OF VENEZUELA. MORE RECENTLY, VENEZUELA HAS ALSO INSISTED ON COASSIGNMENT OF SOME COMMODITIES WHICH IT CONSIDERS VITAL TO ITS ECONOMY. THIS CAUSED CLASH PRIMARILY WITH ECUADOR AND COLOMBIA. ECUADOR, FOR EXAMPLE, REFUSES TO GIVE UP EXCLUSIVE ASSIGNMENT OF ETHYLENE GLYCOL.

5. VENEZUELA AND CHILE REPORTEDLY HAVE WORKED OUT AN INFORMAL AGREEMENT UNDER WHICH THE FORMER WOULD FINANCE PLANTS TO PRODUCE SOME OF CHILE'S EXCLUSIVE ASSIGNMENTS. CHILE IS MORE INTERESTED IN THE ARGENTINE THAN THE VENEZUELAN MARKET FOR THESE PRODUCTS, BECAUSE OF ESTABLISHED BUSINESS RELATIONS AND LOWER FREIGHT COSTS. THE IMPLICATION IS THAT CHILE WOULD NOT NECESSARILY OBJECT IF VENEZUELA ALSO BEGAN TO PRODUCE SOME OF THESE COMMODITIES, AS LONG AS THEY WERE DESTINED ONLY FOR VENEZUELAN NATIONAL MARKET. THE CHILEAN-VENEZUELAN SCHEME COULD BE A PRAGMATIC APPROACH, WITH OR WITHOUT THE ANDEAN PACT.

6. BOLIVIA MAY BACK OFF FROM ITS DEMANDS FOR MORE ASSIGNMENTS BECAUSE OF THE NEGATIVE CONSEQUENCES WHICH FAILURE OF THE ANDEAN PACT COULD HAVE. BOLIVIAN PROSPECTS FOR LIMITED OFFICIAL USE

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EXPORT OF PESTICIDES TO ITS ANDEAN PACT PARTNERS, FOR EXAMPLE, WOULD BE NEGATIVELY AFFECTED. SECONDLY, VENEZUELAN FINANCING FOR THE CONSTRUCTION OF SOME OF THE ASSIGNED INDUSTRIES LOOKS PROMISING.

7. ECUADOR SHARES PERU'S CONVICTION THAT ANDEAN PACT WILL NOT SERVE A USEFUL PURPOSE UNLESS SECTORAL PROGRAMS ARE IMPLEMENTED ON SCHEDULE. PRIVATELY, ECUADOREANS HAVE

COMPLAINED ABOUT OVERBEARING ATTITUDE OF VENEZUELANS.

8. OBSERVERS ARE DIVIDED ON OUTCOME OF FORTHCOMING COMMISSION MEETING. OFFICIALS AT COLOMBIAN AND CHILEAN EMBASSIES IN LIMA ARE OPTIMISTIC, WHILE OTHERS ARE LESS SO. A STRONG ARGUMENT IS THAT VENEZUELA MAY NOT BE PREPARED TO ACCEPT THE POLITICAL SETBACK WHICH ANDEAN PACT FAILURE WOULD IMPLY. SIMILARLY, COLOMBIA HAS TOO MUCH TO LOSE IN TERMS OF ESTABLISHED EXPORTS TO ANDEAN REGION. IT IS THEREFORE QUITE POSSIBLE THAT A COMPROMISE SOLUTION WILL BE AGREED ON. IN THE AUTOMOTIVE INDUSTRY PROGRAM, FOR EXAMPLE, COLOMBIA FEELS IT CAN MAKE SOME CONCESSIONS IF IT CAN GAIN ECONOMIES OF SCALE IN THE MANUFACTURE OF SPECIALIZED AUTOMOTIVE COMPONENTS.

9. THE ANDEAN PACT, HOWEVER, HAS ALREADY BEEN WEAKENED. THE SIGHTS ARE NOT SET AT THIS TIME ON THE AMBITIOUS LONG TERM INTEGRATION OBJECTIVES. INSTEAD, COSTS AND BENEFITS ARE BEING CALCULATED IN TERMS OF THE NEGATIVE EFFECTS WHICH WOULD ACCRUE IF THE PACT FAILED.  
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## Message Attributes

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